

DURANT NON-PLAINTIFF PAYMENT NOVEMBER 14, 2003

We have received several phone calls regarding a payment that was made to many districts on November 14, 2003. That payment represents the sixth of ten equal annual payments to non-plaintiff districts in the *Durant v State of Michigan* court case. These payments began in November 1998 and continue through November 2007. They are processed on November 15 or the prior business day. These are payments to non-plaintiff local and intermediate districts with settlement amounts greater than or equal to \$75,000. These payments will total to one-half of the settlement. Most districts chose to bond for the other half of the settlement and received those proceeds in November 1998.

STATE SCHOOL AID PRORATION

In a letter dated November 6, 2003 to Shirley Johnson, Chair, Senate Appropriation Committee and Marc Shulman, Chair, House Appropriations Committee, State Budget Director Mary Lannoye advised that she has been informed by the State Treasurer that fiscal year 2004 revenues will be insufficient to support the enacted State School Aid Act for the current fiscal year. She further advised that pursuant to Section 11(3) of the State School Aid Act, the remaining school aid payments for fiscal year 2004 will be prorated beginning with the December 2003 payment to reflect available revenues. The letter also states that the Budget Director and the Governor are willing to work with the legislature on an alternative solution to minimize the impact of reduced state revenues on public schools. Under law, action must be taken within 30 calendar days or six legislative session days, whichever is later, to prevent the pro-rata reduction.

It is currently anticipated that fiscal year 2004 state school aid revenue will be short by a total of \$349.6 million. In accordance with Section 11(4), 2003 Public Act 158, state school aid payments to local districts and public school academies will be reduced on a per pupil basis. It is estimated that the per pupil reduction will be approximately \$196. However, the reduction to intermediate school districts will be on an equal percentage basis similar to last year. It is estimated that the reduction to intermediate school districts will be equal to 7.15% of their unprotected state school aid. The school aid allowances under Section 11f (Non-Durant Settlement), Section 11g (Non-Durant Debt Service), Section 22a (Proposal A Obligation), Section 31d (School Lunch), Section 51a2 (ISD Special Education Headlee), Section 51c (Local District Special Education Headlee) and Section 56 (ISD Special Education Millage Equalization) are exempt from Section 11 proration. Because the amount of the revenue shortfall, the number of pupils being educated in public schools this year, and current school year cost data are estimates at this time, the proration figures above are tentative.

Preliminary reduction amounts by local and intermediate school district are available on the House Fiscal Agency's website, the Senate Fiscal Agency's website and the Department of Management and Budget - State Budget Office website. The document on the House Fiscal Agency's website can be accessed at www.house.mi.gov/hfa/PDFs/proration_c.pdf. Direct questions regarding proration to Dan Hanrahan, State Aid and School Finance, (517) 335-0521 or e-mail: HanrahanD@Michigan.gov.

HOW PRORATION WILL APPEAR ON THE STATUS REPORT

If the proration language in Section 11(4) is implemented and school aid payments are reduced based on the formulas in Section 11(4), it is the Departments's intention to have the reduction appear on one line item on the status report. It would appear as a negative allowance under the heading "Current Year Allowances" on the front page for both local and intermediate school districts. The proration reduction will be spread evenly over the remaining school aid payments. For example, if the proration language is implemented with the December 19, 2003 school aid payment, the reduction will be taken 1/9th at a time from the December, January, February, March, April, May, June, July and August payments. The language in Section 11(4) is silent as to how local and intermediate districts spread the proration reduction on their books. Therefore, districts are given the flexibility to apply the proration to any fiscal year 2004 school aid program that is not protected from proration (see item above).

NOVEMBER PAYMENT INFORMATION

The November state school aid payment is the second payment of the 2003-2004 year. The payment will be electronically transferred to the districts' accounts on Thursday, November 20.

Taxable value - The November payment continues to use the *beginning* 2003 tax roll non-homestead taxable value data, as provided by the county treasurers on the DS-4410A forms for all districts. Questions concerning taxable value should first be directed to the appropriate county treasurer.

Pupil membership - September 2003 unaudited pupil count data received prior to November 6, 2003 were used in the calculation of the blended membership count for the November payment. Otherwise the estimates that were used in the October payment continue to be used. Please note that using either the estimates or the unaudited data, districts eligible for the **three-year average membership blend** will have their state aid calculated based upon that average. These are districts with a current year 20% - 80% blend of less than 1,550 **and** 4.5 or fewer pupils per square miles for whom the average of the membership blends for fiscal year 2002, fiscal year 2003 and fiscal year 2004 exceeds the current year blend. An asterisk (*) next to the membership figures on the status report indicates a three-year average.

Special Education cost figures - The 2001-2002 special education and special education transportation cost figures continue to be used in the November payment. The 2002-2003 cost reports, which were due this fall, are being audited by the Office of Special Education and Early Intervention Services and will be used to estimate current year costs when the data are released to the Office of State Aid and School Finance. (Dianne Easterling, Special Education and Early Intervention Services, (517) 241-4517, EasterlingD@Michigan.gov).

Updated categoricals - The following categoricals were updated in the November payment although the updates may not have affected the allocation amounts for all districts. If the allocation amount for your district has changed and you have questions concerning that change, contact the consultants identified below:

- C Michigan School Readiness Grants - Section 32d (Connie Robinson, School Excellence, (517) 241-4291, RobinsonConnie@Michigan.gov).
- C Special Education - Section 54 (Dianne Easterling, Special Education and Early Intervention Services, (517) 241-4517, EasterlingD@Michigan.gov).

Prior Year Adjustments - Many prior year adjustments have been processed in the November payment. The majority of these adjustments are based on taxable value changes reported to the Department on the DS-4410C forms which were due to us in October. Each district should also have received a copy of the DS-4410C form. We have attempted to verify all value changes that appeared to be questionable. For years prior to FY 2001 these adjustments are labeled "FOUNDATION" under the Prior Year Adjustment section of the status report. The adjustments for FY 2001 through FY 2003 are labeled "PROPOSAL A." (Glenda Rader, State Aid and School Finance, (517) 335-0524, RaderG@Michigan.gov).

IMPORTANT DATES TO REMEMBER

NOTE: Noncompliance with the following deadline dates can result in the withholding of state aid.

Please be aware, however, that calculation of the November payment occurs prior to these dates.

Therefore, the November payment is NOT being withheld for noncompliance with the following requirements. Continued noncompliance, however, will result in the withholding of the December state aid payment.

- C The **FY 2003-04 SRSD Records (including State Aid FTE Counts)** for the September 24, 2003 count date were due to ISDs on **October 29** and from the ISDs to the Center for Educational Performance and Information (CEPI) on **November 12**. Failure to file these reports will result in the **withholding of state aid**. (Joellen Wonsey, (517) 373-3352, WonseyJ@Michigan.gov)
- C **November 1** was the deadline for local districts (including PSAs) to file their **FY2002-03 financial audit reports** with the ISDs. The **financial and pupil accounting reports** were due **November 15** from the ISDs to the Department. Failure to file these reports will result in the **withholding of state aid**. (Kathy Weller, (517) 335-6858, WellerK@Michigan.gov)
- C **November 15** was the deadline for local and intermediate districts (including PSAs) to submit the **FY2002-03 Form B - Annual Comprehensive Financial Report**. Failure to file these reports will result in the **withholding of state aid**. (Glenda Rader, (517) 335-0524, RaderG@Michigan.gov)

Proration factors for November include Section 31 At-Risk \$98.8144821027 per pupil, Section 56 Special Ed Millage Equalization .7929111644 and Vocational Education Millage Equalization .8499645239.

*Do you have questions about the information appearing in this UPDATE? Call the consultants identified above or **Dan Hanrahan, Director, State Aid & School Finance**, MDE, phone: (517) 335-0521, fax: (517) 241-0196, e-mail: HanrahanD@Michigan.gov